

Laurium Housing Commission

Laurium, Michigan

HUD PROJECT NO. MI-054001

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2005

David A. Heinonen, CPA, PC

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Laurium Housing Commission	County Houghton
Fiscal Year End September 30, 2005	Opinion Date May 2, 2006	Date Audit Report Submitted to State May 19, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	None		
Other (Describe)	<input checked="" type="checkbox"/>	Agreed-Upon Procedures Report, Audit Procedures Report		
Certified Public Accountant (Firm Name) David A Heinonen CPA PC	Telephone Number (906) 337-2910			
Street Address 61 Third Street	City Laurium	State MI	Zip 49913	
Authorizing CPA Signature 	Printed Name David A. Heinonen	License Number 1101023766		

LAURIUM HOUSING COMMISSION
Laurium, Michigan

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Independent Auditor's Report

Board of Commissioners
Laurium Housing Commission
Laurium, MI 49913

We have audited the accompanying financial statements of the Laurium Housing Commission, HUD Project No. MI-054001 as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Laurium Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Laurium Housing Commission as of September 30, 2005, and the changes in financial position and cash flows thereof for the year then ended in conformity with generally accepted accounting principles.

In accordance with **Government Auditing Standards**, we have also issued our report dated May 2, 2006 on our consideration of the Laurium Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards**, and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, **Financial Statements and- Management's Discussion and Analysis-For State and Local Governments** and Governmental Accounting Standards Board Statement No. 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Financial Data Schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the Laurium Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.


David A. Heinonen, CPA, PC

Laurium, Michigan
May 2, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Laurium Housing Commission's financial performance provides an overview of the financial activities for the year ended September 30, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The Commission's net assets for the year are \$758,840, an increase of 2.5% over the \$740,293 reported last year. The Commission had operating revenues of \$139,194 which is an increase of 8.6% from the operating revenues last year of \$128,076. The Commission also had capital projects fund revenues of \$35,484 and \$36,746 respectively. The Commission's operating expenses for the year were \$127,719, an increase of 4.5%, over those last year of \$122,202. In addition depreciation expense was \$28,412 and \$27,120 respectively. The actual results of operations for the Commission were within the final budgetary overall amounts for both the current and previous years.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues Expenses and Changes in Net Assets (on pages 8 and 10) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 8. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's net assets and changes in them. You can think of the Commission's net assets—the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, increases or decreases in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

Business-type activities—The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 8. The financial statements provide detailed information on all of the Commission's activities. The Commission uses a proprietary fund to account for its activities. The method of accounting for proprietary funds is explained below.

Proprietary funds – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at September 30, 2005 increased \$18,547 from September 30, 2004.

Table 1 – Net Assets

	2005	2004
Assets:		
Current and other assets	\$ 190,433	\$ 160,880
Capital assets (net)	<u>589,173</u>	<u>599,510</u>
Total assets	<u>779,506</u>	<u>760,390</u>
Liabilities:		
Current and other liabilities	13,984	13,541
Other liabilities	<u>6,782</u>	<u>6,556</u>
Total liabilities	<u>20,766</u>	<u>20,097</u>
Net Assets:		
Investment in capital assets, net of related debt	589,173	599,510
Unrestricted net assets	<u>169,667</u>	<u>140,783</u>
Net Assets	\$ 758,840	\$ 740,293

Net assets of the Commission stood at \$758,840, versus \$740,293 last year. Unrestricted net business assets were \$169,667, and \$140,783 last year. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2 – Changes in Net Assets

Revenues	2005	2004
Program revenues:		
Charges for services	\$ 90,110	\$ 83,311
Program grants & subsidies	80,534	78,970
General revenues:		
Other income	0	910
Unrestricted investment		
Earnings	<u>4,034</u>	<u>1,631</u>
Total revenues	174,678	164,822
Program Expenses		
Operating expenses	156,131	149,322
Loss on sale of fixed assets	<u>0</u>	<u>0</u>
Total expenses	<u>156,131</u>	<u>149,322</u>
Increase in net assets	18,547	15,500
Net assets – beginning of year	<u>740,293</u>	<u>724,793</u>
Net assets – end of year	\$ 758,840	\$ 740,293

BUSINESS-TYPE ACTIVITIES

Revenues for the Commission totaled \$174,678, and were \$164,822 last year. The Commission's average unit months leased on a monthly basis had increased slightly during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005, the Commission had \$1,143,759, last year it had \$1,125,685, invested in a variety of capital assets including land, equipment and building as follows:

Table 3 – Capital Assets at September 30, 2005 Business – Type Activity

	2005	2004
Land and improvements	\$ 65,755	\$ 52,133
Building and improvements	964,840	964,840
Equipment	113,164	108,712
Construction in progress	<u>0</u>	<u>0</u>
Total cost	1,143,759	1,125,685
Less accumulated depreciation	<u>(554,587)</u>	<u>(526,175)</u>
	\$ 589,172	\$ 599,510

BUDGET COMPARATIVES, ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Table 4 discusses the variance between the final budget and the actual results for 2005 and 2004.

Table 4 – Final Budget versus Actual Results – September 30, 2005 and 2004

	2005 Final Budget	2005 Actual	2005 Variance
Operating Subsidy - HUD	\$ 45,050	\$ 45,050	\$ 0
Program Revenues	<u>83,250</u>	<u>94,144</u>	<u>10,894</u>
	128,300	139,194	10,894
Administration	29,220	27,674	1,546
Tenant Services	1,500	864	636
Utilities	24,030	30,125	(6,095)
Maintenance	35,080	25,107	9,973
General	44,640	43,949	691
Protective Services	<u>2,500</u>	<u>0</u>	<u>2,500</u>
	136,970	127,719	9,251
	2004 Final Budget	2004 Actual	2004 Variance
Operating Subsidy - HUD	\$ 42,224	\$ 42,224	\$ 0
Program Revenues	<u>67,010</u>	<u>85,852</u>	<u>18,842</u>
	109,234	128,076	18,842
Administration	27,625	26,138	1,487
Tenant Services	1,500	344	1,156
Utilities	21,020	28,391	(7,371)
Maintenance	34,660	28,111	6,549
General	35,320	39,218	(3,898)
Protective Services	<u>2,500</u>	<u>0</u>	<u>2,500</u>
	122,625	122,202	423

The relatively large favorable variance currently of \$10,894 and \$18,842 in 2004 revenues is primarily due to an overall increase in occupancy and the rise in the per room rental rates.

The favorable variance of \$9251 in the 2005 expenses is primarily due to maintenance items that were less than expected, the increase in utilities were essentially offset by expense reductions in all other areas. In 2004 the increase in utilities and general expenses were offset by lesser expenses in all other areas.

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006 budget. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary costs and expense issues. All of these were taken into consideration during the 2005/2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director.

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
STATEMENT OF NET ASSETS
September 30, 2005

CURRENT ASSETS

Cash and cash equivalents	\$	179,372
Accounts receivable - tenants		281
Prepaid expenses		3,998
Total Current Assets		<u>183,651</u>

NONCURRENT ASSETS

Tenant deposits held in trust		6,782
Capital assets		1,143,759
Less accumulated depreciation		<u>(554,586)</u>
Net Capital Assets		<u>589,173</u>

Total Noncurrent Assets 595,955

TOTAL ASSETS

\$ 779,606

LIABILITIES

Accounts payable	\$	817
Accrued liabilities		13,167

Total Current Liabilities 13,984

OTHER LIABILITIES

Tenant security deposits		<u>6,782</u>
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Total Liabilities 20,766

NET ASSETS

Investment in capital assets, net of related debt		589,173
Unrestricted net assets		<u>169,667</u>

NET ASSETS

\$ 758,840

The accompanying notes to financial statements are an integral part of this statement.

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
STATEMENT OF ACTIVITIES
For the Year ended Setember 30, 2005

PROGRAMS	Expenses	Program Revenue			Net Revenue and Change in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities
BUSINESS-TYPE ACTIVITIES:					
Public Housing	\$ 156,131	\$ 90,110	\$ 45,050	\$ 35,484	\$ 14,513
General Revenues:					
	Unrestricted investment earnings			\$	4,034
	Other				0
	Total general revenues				4,034
	Change in net assets				18,547
	Net assets, beginning of year				740,293
	Net assets, end of year			\$	758,840

The accompanying notes to financial statements are an integral part of this statement.

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year ended September 30, 2005

OPERATING REVENUES

Tenant Revenue	\$	90,110
Program grants - subsidies		<u>80,534</u>

Total Operating Revenues	\$	170,644
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OPERATING EXPENSES

Administrative	\$	48,866
Tenant Services		864
Utilities		30,125
Maintenance		32,918
General		14,946
Depreciation expense		<u>28,412</u>

Total Operating Expenses	\$	<u>156,131</u>
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OPERATING INCOME

	\$	14,513
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OTHER INCOME

Interest Income	\$	4,034
Gain/(Loss) on sale of capital assets		<u>0</u>

Total Other Income	\$	<u>4,034</u>
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Change in Net Assets	\$	<u>18,547</u>
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NET ASSETS - BEGINNING OF YEAR

	\$	<u>740,293</u>
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NET ASSETS - END OF YEAR

	\$	<u><u>758,840</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
STATEMENT OF CASH FLOWS
For the Year ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	90,110
Cash received from grants and subsidies		80,534
Cash payments to suppliers for goods and services		(59,044)
Cash payments for wages and related benefits		(63,259)
Payment in lieu of taxes		(5,534)
Other receipts		0
Net cash from operating activities	\$	42,807

CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	\$	(18,074)
Gain on sale of assets		0
Net cash used by capital and related financing activities	\$	(18,074)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	\$	4,034
Other		0
Net cash from investing activities	\$	4,034
Net increase in cash	\$	28,767

CASH AND EQUIVALENTS - BEGINNING OF YEAR \$ 150,605

CASH AND EQUIVALENTS - END OF YEAR \$ 179,372

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	14,513
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		28,412
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable		(281)
Decrease (Increase) in prepaids		(279)
Decrease (Increase) in tenant deposits held in trust		(226)
Increase (Decrease) in accounts payable		391
Increase (Decrease) in accrued liabilities		51
Increase (Decrease) in tenant security deposits		226
Net cash from operating activities	\$	42,807

The accompanying notes to financial statements are an integral part of this statement.

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Laurium Housing Commission (Commission) was formed in 1968 under the criteria established for low- income housing programs by the United States Department of Housing and Urban Development. The commission operates under a board of commissioners appointed by the Laurium Village Council.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that the Laurium Housing Commission was not a component unit of any other governmental unit.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During 2004, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary fund

Proprietary funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are presented using the economic resource measurement focus as defined below.

The Commission utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changing in net assets, financial position and cash flows. All assets and liabilities, whether current or non-current, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets are presented using the accrual basis of accounting.. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission’s business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

Cash and Equivalents - The Commission's cash and equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Due to and Due From Other Funds – Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Capital Assets – Capital Assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building & improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. Compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expense and a corresponding liability.

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets. Consists of capital assets, net of accumulated depreciation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Inter-fund Activity:

As a general rule, the effect of the inter-fund activity has been eliminated from the government-wide statements.

The transfers of cash between the various Commission activities are reported separately from the revenues and expenses as operating transfer in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing activity.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on October 1st. The operating budget includes proposed expenses and the means of financing them. Prior to September 30th the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30th.

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE B – CASH AND INVESTMENTS

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Petty Cash	\$ 23
Cash and equivalents	<u>179,349</u>
TOTAL	\$179,372

The bank balances were fully insured at September 30, 2005. Cash and equivalents are categorized as follow:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commissions name.

	Category			Market	Bank
	1	2	3	Value	Balance
Petty Cash	\$ 23	\$ -	\$ -	\$ 23	\$ -
	<u>179,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,349</u>	<u>\$ 177,648</u>
	\$179,372	\$ -	\$ -	\$ 179,372	\$ 177,648

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE B – CASH AND INVESTMENTS (Continued)

STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an inter-local agreement under the Urban Cooperation's Act of 1967, 1967 (Ex Sess) PA 7 MCL 123.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 29.111 to 129.118.
- j. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 21, MCL 129.141. to 129.150.

Michigan Law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

LAURIUM HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Continued)

NOTE B – CASH AND INVESTMENTS (Continued)

INVESTMENTS

Investments (if any) would be stated at market value.

Investments would normally consist of certificates of deposit and be in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 – Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust dept.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust dept or agent but not in the Commission's name.

There were no investments at September 30, 2005.

NOTE C – PENSION PLAN

The Laurium Housing Commission provides a Simplified Employee Pension Plan for Eligible employees. The terms of the plan call for contributions of 8% of each employees annual compensation. Pension expense totaled \$1,749 for the year ended September 30, 2005.

NOTE D – FIXED ASSETS

A summary of Capital assets as of September 30, 2005 is as follows:

	Balance 10/01/2004	Additions	Deductions	Balance 09/30/2005
Land	\$ 52,133	\$ 13,622	\$ -----	\$ 65,755
Buildings	\$ 964,840	\$ -----	\$ -----	\$ 964,840
Equipment	<u>\$ 108,712</u>	<u>\$ 4,452</u>	<u>\$ -----</u>	<u>\$ 113,164</u>
	\$1,125,685	\$ 18,074	\$ -----	\$1,143,759
Accumulated Depreciation	<u>\$(526,175)</u>	<u>\$(28,412)</u>	<u>\$ -----</u>	<u>\$(554,587)</u>
Net Capital Assets	\$ 599,510	\$(10,338)	\$ 0	\$ 589,172

Depreciation expense for the year was \$28,412.

LAURIUM HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

(Continued)

NOTE E – COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the Commission accrues a liability for compensated absences which meet the following criteria:

1. The Commission's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Commission has calculated a liability for sick, personal and vacation leave which has been earned but not taken by Commission employees. The amount of \$3,543 is included in liabilities in accordance with FASB Statement 43.

NOTE F – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE G – USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE H – ECONOMIC DEPENDENCY

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended September 30, 2005 totaled \$170,644 of which \$80,534 or 47.2% was from HUD subsidies and grants.

SUPPLEMENTAL INFORMATION

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
FINANCIAL DATA SCHEDULE
September 30, 2005

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
ASSETS				
CURRENT ASSETS				
	Cash and cash equivalents			
1111.1	Cash - General Fund - Unrestricted	179,349	-	179,349
1117	Petty cash	23	-	23
111	Total Cash and Equivalents	179,372	-	179,372
126	Accounts receivable - Tenants - Dwelling	281	-	281
142	Miscellaneous prepaid expenses	3,998	-	3,998
150	Total Current Assets	183,651	-	183,651
114	Tenant deposits held in trust	6,782	-	6,782
PROPERTY AND EQUIPMENT				
161	Land	65,755	-	65,755
162	Building	964,840	-	964,840
163	Furniture, equipment, and machines-dwelling	106,979	-	106,979
164	Furniture, equipment, and machines-administrative	6,185	-	6,185
	Total Fixed Assets	1,143,759	-	1,143,759
166	Accumulated depreciation - structures and equipment	(554,586)	-	(554,586)
160	Net Fixed Assets	589,173	-	589,173
190		779,606	-	779,606
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
312	Accounts payable - vendors and contractors	817	-	817
	Accrued liabilities			
321	Payroll taxes	1,039	-	1,039
322	Deferred credits - other	3,543	-	3,543
333	Payments in lieu of taxes	5,582	-	5,582
345	Utilities and other	3,003	-	3,003
310	Total Current Liabilities	13,984	-	13,984
341	Tenant Security Deposits	6,782	-	6,782
EQUITY				
508.1	Investment in capital assets, net of debt	589,173	-	589,173
512.1	Unrestricted net assets	169,667	-	169,667
513	Total Equity	758,840	-	758,840
600		779,606	-	779,606

See notes to financial statements.

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
FINANCIAL DATA SCHEDULE
September 30, 2005

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
703	Dwelling rental	85,948	-	85,948
711	Investment income - unrestricted	4,034	-	4,034
706	Revenue HUD PHA Operating Grants	45,050	-	45,050
706.1	Revenue HUD PHA Capital Grants	0	35,484	35,484
716	Gain/(Loss) on sale of fixed assets	0	-	0
704	Tenant revenue - other	4,162	-	4,162
	Total Other Revenue	49,212	35,484	84,696
700	Total Revenue	139,194	35,484	174,678
EXPENSES				
911	Administrative Wages	16,905	-	16,905
916	Accounting fees	1,635	-	1,635
916	Sundry-other administrative expense	7,134	-	7,134
915	Employee Benefit Contribution	21,192	-	21,192
912	Auditing fee	2,000	-	2,000
	Total Administrative Expenses	48,866	-	48,866
924	Tenant services - other	864	-	864
932	Electricity	11,876	-	11,876
931	Water	5,317	-	5,317
933	Gas	12,932	-	12,932
	Total Utilities Expense	30,125	-	30,125
941	Labor	17,351	-	17,351
942	Materials and other	2,192	-	2,192
943	Contract costs	5,564	-	5,564
945	Employee Benefit Contribution	7,811	-	7,811
	Total Ordinary Maintenance Expenses	32,918	-	32,918
971	Extraordinary Maintenance	0	-	0
	Total Extraordinary Maintenance Expense	0	-	0

See notes to financial statements.

LAURIUM HOUSING COMMISSION
-PROPRIETARY FUND
HUD PROJECT NO MI-054001
FINANCIAL DATA SCHEDULE
September 30, 2005

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
963	Payments in lieu of taxes	5,534	-	5,534
961	Insurance	9,412	-	9,412
	Total General Expenses	14,946	-	14,946
969	Total Operating Expenses	127,719	-	127,719
970	Excess Operating Revenue	11,475	35,484	46,959
974	Depreciation expenses	28,412	-	28,412
900	Total Expenses	156,131	-	156,131
	Other Financing Sources (Uses)			
1001	Operating transfers in	35,484	-	35,484
1002	Operating transfers out	-	(35,484)	(35,484)
1010	Total Other Financing Sources (Uses)	35,484	(35,484)	-
1000	Excess of Total Revenue over Total Expenses	18,547	-	18,547

See notes to financial statements.

DAVID A. HEINONEN CPA PC

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Report on Compliance and on Internal Control over Financial Reporting **Based on an Audit of Financial Statements Performed in** **Accordance with Government Auditing Standards**

Board of Commissioners
Laurium Housing Commission
Laurium, MI 49913

We have audited the financial statements of the Laurium Housing Commission, HUD Project No. MI-054001, as of and for the year ended September 30, 2005, and have issued our report thereon dated May 2, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurium Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurium Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, board of directors, management, others with the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



David A. Heinonen, CPA, PC
Laurium, Michigan
May 2, 2006

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David A Heinonen CPA PC

Independent Accountant's Report on Applying Agreed-Upon Procedure

Board of Commissioners
Laurium Housing Commission
Laurium MI 49913

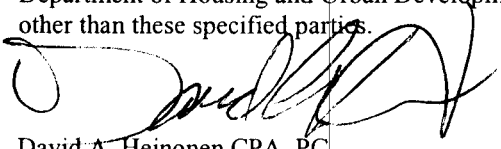
We have performed the procedure described in the second paragraph of this report, which was agreed to by the Laurium Housing Commission and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents. The Laurium Housing Commission is responsible for the accuracy and completeness of the electronic submission. The agreed-upon procedure engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and the hard copy document as shown in the attached chart.

We were engaged to perform an audit of financial statements of the Laurium Housing Commission as of and for the year ended September 30, 2005, and have issued our reports thereon dated May 2, 2006. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated May 2, 2006, was expressed in relation to the basic financial statements of the Laurium Housing Commission taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from the Laurium Housing Commission. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the Laurium Housing Commission and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.



David A. Heinonen CPA, PC

Laurium, Michigan
May 2, 2006

Attachment to Independent Accountant's Report on Applying

Agreed-Upon Procedure

<u>UFRS Rule Information</u>	<u>Hard Copy Document(s)</u>	<u>Findings</u>
Balance Sheet, Revenue and Expense and Cash Flow Data (account numbers 1120 to 7100T and the S1200 Series)	Supplemental Schedules with Financial Statement Data	Agrees
Surplus Cash (S1300 series of accounts)	Computation of Surplus Cash, Distributions and Residual Receipts (Annual)	Agrees
Footnotes (S1300 series of accounts)	Notes to Financial Statements	Agrees
Type of Opinion on the Financial Statements and Compliance (account numbers S2100-020, S2300-020)	Auditor's Reports on the Financial Statements and Compliance	Agrees
Type of Opinion on Supplemental Data (account number S2100-100)	Auditor's Report on Supplemental Data	Agrees
Audit Findings Narrative (S2700 series of accounts)	Schedule of Findings and Questioned Costs	Agrees